

Message Text

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 3259

C O N F I D E N T I A L CARACAS 5687

EO 11652 GDS

TAGS: PINS ASEC EINV VE

SUBJ: NATIONALIZATION OF OWENS-ILLINOIS

REF: CARACAS 5338

1. SUMMARY: THE NEGOTIATIONS APPEAR TO BE AT AN IMPASSE. MINISTER OF STATE LAURIA RECEIVED SOME HEAVY ARGUMENTATION ON HIS THESIS THAT OWENS-ILLINOIS PROFITS WERE EXCESSIVE. LAURIA IS NOW ON A NEW TACK AND IS PUSHING ARBITRATION. THIS PROSPECT DOES NOT APPEAR TO BE PLEASING TO O-I OFFICIALS. THIS MESSAGE CONTAINS PROPRIETARY INFO GIVEN TO THE EMBASSY IN CONFIDENCE AND NOT FOR DISCLOSURE TO THIRD PARTIES. END SUMMARY.

2. THOMAS HUGHES, O-I ATTORNEY, CALLED TO BRING EMBASSY UP TO DATE ON SUBJECT. THE GOV OFFER REMAINS BS 141 MILLION AND THE O-I COUNTER OFFER OF BS 450 MILLION STILL STANDS. MINISTER OF STATE LAURIA LECTURED THE O-I NEGOTIATORS ON HIS SHOCK OVER WHAT HE CONSIDERED O-I'S UNACCEPTABLY HIGH PROFITS. APPARENTLY, THE NEGOTIATORS WERE READY FOR HIM. LAURIA WAS INFORMED THAT THE HIGH RETURN ON NET WORTH WAS ATTRIBUTABLE TO THE FACT THE O-I VENEZUELAN HAS NOT PAID FOR TECHNOLOGY UNDER ANDEAN PACT RULES AND THAT LOCAL ASSETS HAVE NOT BEEN REVALUED. O-I DEMONSTRATED REPLACEMENT COSTS TO BE ABOUT BS 301 MILLION THEY ALSO POINTED OUT THAT THE LOCAL FIRM HAS RECEIVED LOANS FROM THE PARENT COMPANY AMOUNTING TO BS 16 MILLION WHICH MUST BE CONSIDERED CAPITAL FOR THESE PURPOSES.

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ALSO CITED WAS A RECENT CARACAS STOCK MARKET REPORT OF

RETURN ON NET WORTH OF 100 PERCENT VENEZUELAN COMPANIES WHICH SHOWED THAT THE O-I RETURN WAS FAR BELOW THE VENEZUELAN AVERAGE.

3. LAURIA ALSO MET THIS WEEK WITH THE DIRECTORS OF THE VENEZUELAN-AMERICAN CHAMBER OF COMMERCE TO DISCUSS POSSIBLE SOLUTIONS TO THE IMPASSE. HE REMAINED FIRM AGAINST ANY "ANDEAN PACT" OR "INDULAC" SOLUTIONS. HOWEVER, WHEN WILLIAM COLES, LOCAL US LAWYER, SUGGESTED ARBITRATION TO ESTABLISH THE PRICE, LAURIA ACCEPTED THE IDEA WITH ALACRITY. HE PRESENTED THE ISSUE AT A CABINET MEETING ON TUESDAY, MAY 18, AND IT WAS APPROVED. THE GROUND RULES WOULD BE THAT EACH SIDE WOULD PICK AN ARBITRATOR AND THE TWO THUS SELECTED WOULD PICK A THIRD. ALL THREE WOULD HAVE TO BE SATISFACTORY TO BOTH PARTIES. THE ARBITRATORS COULD BE EITHER VENEZUELAN OR AMERICANS BUT MUST BE RESIDENTS OF VENEZUELA FOR AT LEAST 10 YEARS. THE ARBITRATORS, OF COURSE, WOULD ONLY CONSIDER PRICE AND NOT THE FORCED SALE OF THE COMPANY. HUGHES MADE IT CLEAR THAT THIS WAS NOT A VENEZUELAN-AMERICAN CHAMBER OF COMMERCE RECOMMENDATION BUT MERELY ONE OF MANY SUGGESTIONS THAT AROSE DURING THEIR DISCUSSIONS.

4. BILL COLEMAN IS NOT IN VENEZUELA AT THE MOMENT BUT HUGHES STATES THAT MAX POWELL, VICE PRESIDENT OF O-I'S INTERNATIONAL DIVISION, WAS FURIOUS AT THE IDEA AND HE DOES NOT BELIEVE OWENS-ILLINOIS TOLEDO WOULD ACCEPT THE SUGGESTION. ONE OF HUGHES' CONCERNS IS THAT EVEN IF AMERICANS ARE SELECTED AS ARBITRATORS, THE POTENTIAL PRESSURE ON A 10-YEAR RESIDENT MIGHT BE ENORMOUS. HUGHES ALSO STATED THAT LAURIA SAW ARBITRATION AS A SUITABLE MEANS OF NEUTRALIZING PRESSURE FROM THE US GOVT. CAUTION: PROPRIETARY INFO INVOLVED.
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